

## Endogenous Money in the Alternative Multiplier Framework

According to the endogenous money viewpoint, the Fed and private banks will accommodate the demand for credit, whatever the rate of interest, as long as expected profits will cover finance costs. As the money is spent, some part of the receipts will be redeposited in the banking system, the rest being respent.

If we assume that the banking system underwrites aggregate investment (I), the money is borrowed and spent purchasing plant and equipment. The profit portion of the receipts is redeposited, but the receipts corresponding to wages paid to workers are spent on consumption goods. The subsequent receipts in the consumption goods industries are then also split between profits that are redeposited and wages that are respent...and so on, until the total amount redeposited equals the level of initial loans financing investment, I.

### *Lending, Spending, Redepositing*

Demand for credit  $\uparrow \rightarrow$  Credit extended  $\rightarrow$  I  $\uparrow \rightarrow$  Y  $\uparrow \rightarrow$  S  $\uparrow \rightarrow$  Bank deposits  $\uparrow$

$$D_1 = (1 - wn) I \quad (1)$$

$$D_2 = (1 - wn) D_1 = (1 - wn)^2 I \quad (2)$$

$$D_3 = (1 - wn) D_2 = (1 - wn)^3 I \quad (3)$$

so that

$$D_1 + D_2 + D_3 + \dots = [1 + (1 - wn) + (1 - wn)^2 + \dots] (1 - wn) I \quad (4)$$

$$= [1/(1 - wn)] (1 - wn) I \quad (5)$$

$$= I$$